

PERAC AUDIT REPORT



Peabody Contributory Retirement System

JAN. 1, 2003 - DEC. 31, 2005 / PERAC 05: 12-074-16



TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Findings and Recommendations	2
Statement Of Ledger Assets And Liabilities	4
Statement Of Changes In Fund Balances	5
Statement Of Income	6
Statement Of Disbursements.....	7
Investment Income.....	8
Statement Of Allocation Of Investments Owned	9
Supplementary Investment Regulations	10
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	12
Note 2 - Significant Accounting Policies.....	13
Note 3 - Supplementary Membership Regulations.....	14
Note 4 - Administration Of The System	16
Note 5 - Actuarial Valuation And Assumptions	17
Note 6 - Membership Exhibit.....	18

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*
KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*

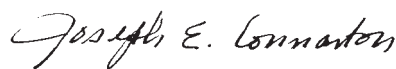
October 6, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Peabody Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2003 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners James Ryan and James Sweeney who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Peabody Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE -YEAR PERIOD ENDING DECEMBER 31, 2005

1. Cash – Retiree Payroll Account

The Peabody Retirement System's retiree payroll account with Bank of America is not being reconciled to the general ledger (GL) by the City Treasurer. In addition, an outstanding check list is currently not being maintained.

Recommendation: The City Treasurer shall be the custodian of the retirement system's funds according to G.L. c. 32, § 23(2)(a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control of the retirement system by segregating reconciliation duties. The Treasurer must be instructed to provide appropriate paperwork (bank statement, reconciliation, and outstanding check list) to the Retirement Board on a monthly basis for all operating accounts. The Board should investigate all outstanding checks over 6 months old.

Board Response:

The Treasurer is reconciling the payroll account monthly and maintaining the outstanding check list.

2. Retirees-Workers Compensation Settlements

A. In December 2004, a member of the Peabody Retirement System, who is employed by the Peabody Housing Authority, accepted a lump sum settlement of his workers' compensation claim. The total amount of the settlement agreement was \$65,000, allocated as follows:

Attorney's fee	\$11,000
Peabody Retirement Board	\$6,600
Inchoate Rights	\$20,000
§36	\$10,000
Unreimbursable medicals	\$11,400
Net to claimant	\$6,000

As a result of this settlement agreement, the Board accepted less than the full amount to which it was entitled. Nothing in G.L. c. 32 allows a Retirement Board to accept less than the full amount to which it is entitled.

B. At its meeting soon after the lump sum settlement was presented to the Board, the Board voted to accept the \$6,600 and forward it to the Peabody Housing Authority. As in the preceding finding, the Board has no authority to accept less than the full amount to which it is entitled. G.L. c. 32, § 14(2) provides that any workers' compensation benefits attributable to weekly benefits are to be paid in lieu of the pension portion of a disability retirement allowance for the same injury. This means that the member received the

Peabody Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE THREE -YEAR PERIOD ENDING DECEMBER 31, 2005

workers' compensation benefits instead of the pension portion of his allowance. If the workers' compensation benefit is less than the pension portion of the retirement allowance, the member receives the workers' compensation benefit and an amount of the pension that exceeds the workers' compensation payment. The money not paid to the member remains in the pension fund. If a lump sum settlement results in a lump sum payment to the Retirement Board, that amount is deposited into the pension fund. There is nothing in G.L. c. 32 that allows the Board to transfer the funds to the employer, as it did in this case.

Recommendations:

A. The Board must offset the remaining \$6,000 at the rate of \$492.52 per week as required by G.L. c. 32, § 14(2).

B. The Peabody Retirement Board must recover the \$6,600 that was improperly paid to the Peabody Housing Authority.

The Board must review all lump sum settlements and determine if the Board's recovery has been properly calculated. Any calculations not consistent with G.L. c. 32 must be recalculated and amounts improperly forgiven must be recouped.

Board Response:

The Peabody Housing Authority has returned the \$6,600 which the Retirement Office has deposited into the pension fund.

The Retirement Office has started offsetting the remaining \$6,000 at a rate of \$500.00 per month so as not to cause a hardship for the retiree.

PERAC Response:

The Peabody Retirement Board does not have the authority to reduce or extend the offset. The statute is quite clear. The hardship factor can not be considered and is not a sufficient rationale for non-compliance.

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that the appropriate actions have been taken regarding all findings.

Peabody Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE -YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2005	2004	2003
Cash	\$689,652	\$525,438	\$1,356,454
Short Term Investments	0	0	0
Fixed Income Securities	0	0	0
Equities	8,822,123	12,225,125	12,714,875
Pooled Global Equity Funds	43,695,287	51,441,436	46,198,661
Pooled Domestic Fixed Income Funds	0	33,957,866	32,985,270
Pooled Alternative Investment Funds	3,633,244	0	0
Pooled Real Estate Funds	5,920,141	0	0
PRIT Core Fund	37,461,841	0	0
Interest Due and Accrued	94	157	42
Accounts Receivable	2,752,896	2,401,277	1,454,010
Accounts Payable	(83,603)	(114,807)	(106,703)
TOTAL	<u>\$102,891,675</u>	<u>\$100,436,491</u>	<u>\$94,602,609</u>
FUND BALANCES			
Annuity Savings Fund	\$28,301,310	\$26,782,414	\$25,165,701
Annuity Reserve Fund	12,715,380	12,903,339	13,325,334
Pension Fund	3,279,568	1,671,449	4,735,473
Military Service Fund	6,613	6,613	1,117
Expense Fund	0	0	0
Pension Reserve Fund	58,588,804	59,072,677	51,374,984
TOTAL	<u>\$102,891,675</u>	<u>\$100,436,491</u>	<u>\$94,602,609</u>

Peabody Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE -YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2003)	\$25,477,822	\$11,498,673	\$7,321,054	\$1,084	\$0	\$37,129,666	\$81,428,298
Receipts	3,079,095	356,712	7,223,681	33	551,822	14,245,318	25,456,661
Interfund Transfers	(3,034,469)	3,034,469	0	0	0	0	0
Disbursements	(356,746)	(1,564,520)	(9,809,262)	0	(551,822)	0	(12,282,350)
Ending Balance (2003)	25,165,701	13,325,334	4,735,473	1,117	0	51,374,984	94,602,609
Receipts	2,796,721	391,370	7,559,458	5,496	595,586	7,705,248	19,053,879
Interfund Transfers	(847,588)	847,588	7,555	0	0	(7,555)	0
Disbursements	(332,419)	(1,660,953)	(10,631,038)	0	(595,586)	0	(13,219,996)
Ending Balance (2004)	26,782,414	12,903,339	1,671,449	6,613	0	59,072,677	100,436,491
Receipts	3,039,109	379,014	8,400,634	0	594,184	3,682,891	16,095,832
Interfund Transfers	(1,102,059)	1,102,059	4,166,764	0	0	(4,166,764)	0
Disbursements	(418,154)	(1,669,033)	(10,959,278)	0	(594,184)	0	(13,640,648)
Ending Balance (2005)	<u>\$28,301,310</u>	<u>\$12,715,380</u>	<u>\$3,279,568</u>	<u>\$6,613</u>	<u>\$0</u>	<u>\$58,588,804</u>	<u>\$102,891,675</u>

Peabody Retirement System

STATEMENT OF INCOME

**FOR THE THREE -YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Annuity Savings Fund:			
Members Deductions	\$2,736,452	\$2,540,532	\$2,628,387
Transfers from other Systems	106,367	23,978	175,824
Member Make Up Payments and Redeposits	40,912	86,430	26,077
Member Payments from Rollovers	0	0	9,891
Investment Income Credited to Member Accounts	<u>155,378</u>	<u>145,781</u>	<u>238,916</u>
Sub Total	<u>3,039,109</u>	<u>2,796,721</u>	<u>3,079,095</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>379,014</u>	<u>391,370</u>	<u>356,712</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	186,847	173,393	170,510
Received from Commonwealth for COLA and Survivor Benefits	549,368	609,070	618,838
Pension Fund Appropriation	<u>7,664,419</u>	<u>6,776,996</u>	<u>6,434,333</u>
Sub Total	<u>8,400,634</u>	<u>7,559,458</u>	<u>7,223,681</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	5,482	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>14</u>	<u>33</u>
Sub Total	<u>0</u>	<u>5,496</u>	<u>33</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>594,184</u>	<u>595,586</u>	<u>551,822</u>
Sub Total	<u>594,184</u>	<u>595,586</u>	<u>551,822</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	26,677	24,815	28,294
Interest Not Refunded	1,987	4,150	5,356
Misc. Income	743	7,555	0
Excess Investment Income	<u>3,653,485</u>	<u>7,668,729</u>	<u>14,211,667</u>
Sub Total	<u>3,682,891</u>	<u>7,705,248</u>	<u>14,245,318</u>
TOTAL RECEIPTS	<u>\$16,095,832</u>	<u>\$19,053,879</u>	<u>\$25,456,661</u>

Peabody Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE -YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Annuity Savings Fund:			
Refunds to Members	\$169,283	\$243,934	\$138,047
Transfers to other Systems	<u>248,871</u>	<u>88,485</u>	<u>218,699</u>
Sub Total	<u>418,154</u>	<u>332,419</u>	<u>356,746</u>
Annuity Reserve Fund:			
Annuities Paid	1,669,033	1,620,636	1,480,966
Option B Refunds	<u>0</u>	<u>40,317</u>	<u>83,554</u>
Sub Total	<u>1,669,033</u>	<u>1,660,953</u>	<u>1,564,520</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	8,008,012	7,804,597	7,080,484
Survivorship Payments	680,499	642,481	631,882
Ordinary Disability Payments	98,530	100,638	112,051
Accidental Disability Payments	1,427,143	1,368,595	1,313,988
Accidental Death Payments	428,705	443,600	431,146
Section 101 Benefits	58,614	56,907	54,802
3 (8) (c) Reimbursements to Other Systems	257,776	214,220	184,909
State Reimbursable COLA's Paid	<u>0</u>	<u>0</u>	<u>0</u>
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>10,959,278</u>	<u>10,631,038</u>	<u>9,809,262</u>
Military Service Fund:			
Return to Municipality for Members Who			
Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	16,694	16,729	16,762
Salaries	95,077	95,042	119,040
Legal Expenses	<u>0</u>	<u>0</u>	<u>0</u>
Medical Expenses	210	0	127
Travel Expenses	2,081	622	656
Administrative Expenses	21,144	32,029	15,914
Furniture and Equipment	430	563	426
Management Fees	420,111	411,324	361,018
Custodial Fees	38,437	39,277	37,880
Consultant Fees	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>594,184</u>	<u>595,586</u>	<u>551,822</u>
TOTAL DISBURSEMENTS	<u>\$13,640,648</u>	<u>\$13,219,996</u>	<u>\$12,282,350</u>

Peabody Retirement System

INVESTMENT INCOME

**FOR THE THREE -YEAR PERIOD BEGINNING JANUARY 1, 2003
AND ENDING DECEMBER 31, 2005**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2005	2004	2003
Investment Income Received From:			
Cash	\$11,755	\$1,575	\$1,217
Short Term Investments	0	1,536	1,661
Fixed Income	0	0	0
Equities	138,882	220,868	159,554
Pooled or Mutual Funds	2,147,232	0	0
Commission Recapture	<u>2,603</u>	<u>2,327</u>	<u>6,045</u>
TOTAL INVESTMENT INCOME	<u>2,300,471</u>	<u>226,306</u>	<u>168,477</u>
Plus:			
Realized Gains	3,406,567	400,735	714,865
Unrealized Gains	10,260,752	10,918,758	17,453,861
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>94</u>	<u>157</u>	<u>42</u>
Sub Total	<u>13,667,413</u>	<u>11,319,650</u>	<u>18,168,768</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(1,207,121)	(1,292,451)	(196,399)
Unrealized Loss	(9,978,545)	(1,451,984)	(2,781,600)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(157)</u>	<u>(42)</u>	<u>(96)</u>
Sub Total	<u>(11,185,823)</u>	<u>(2,744,477)</u>	<u>(2,978,095)</u>
NET INVESTMENT INCOME	<u>4,782,061</u>	<u>8,801,479</u>	<u>15,359,150</u>
Income Required:			
Annuity Savings Fund	155,378	145,781	238,916
Annuity Reserve Fund	379,014	391,370	356,712
Military Service Fund	0	14	33
Expense Fund	<u>594,184</u>	<u>595,586</u>	<u>551,822</u>
TOTAL INCOME REQUIRED	<u>1,128,576</u>	<u>1,132,751</u>	<u>1,147,483</u>
Net Investment Income	<u>4,782,061</u>	<u>8,801,479</u>	<u>15,359,150</u>
Less: Total Income Required	<u>1,128,576</u>	<u>1,132,751</u>	<u>1,147,483</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$3,653,485</u>	<u>\$7,668,729</u>	<u>\$14,211,667</u>

Peabody Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE PERIOD ENDING DECEMBER 31, 2005

	<u>MARKET VALUE</u>	<u>PERCENTAGE OF TOTAL ASSETS</u>	<u>PERCENTAGE ALLOWED</u>
Cash	\$689,652	0.69%	100
Short Term	0	0.00%	100
Fixed Income	0	0.00%	40 - 80
Equities	8,822,123	8.80%	40
Pooled Global Equity Funds	43,695,287	43.60%	
Pooled Domestic Fixed Income Funds	0	0.00%	
Pooled Alternative Investment Funds	3,633,244	3.63%	
Pooled Real Estate Funds	5,920,141	5.91%	
PRIT Core Fund	37,461,841	37.38%	100
GRAND TOTALS	<u>\$100,222,288</u>	<u>100.00%</u>	

For the year ending December 31, 2005, the rate of return for the investments of the Peabody Retirement System was 5.82%. For the five-year period ending December 31, 2005, the rate of return for the investments of the Peabody Retirement System averaged 4.26%. For the 21-year period ending December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Peabody Retirement System was 10.13%.

Peabody Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE -YEAR PERIOD ENDING DECEMBER 31, 2005

The Peabody Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

September 8, 1988

20.03(1) Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

March 30, 1989

20.04(6) Equities of foreign corporations, including American Depositary Receipts, listed on the New York Stock Exchange, provided that all such investments are denominated in U.S. currency, and that the total of all such investments shall not exceed 10% of the total book value of equity investments.

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent as rated by one or more recognized bond rating services.

September 30, 1989

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of Ba or equivalent.

20.06(8) Sales of fixed income investments with maturities exceeding one year shall not exceed 150% of the market value of all fixed income obligations in any twelve-month period, excluding cash and short term obligations.

20.07(6) Sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.

March 22, 1990

20.04(7) The portion of the portfolio that is invested in the Freedom Capital Environmental Fund and the Freedom Capital Global Fund may include investments in international equity and fixed income investments which are traded on foreign exchanges; provided further that the total of such international investments may not exceed 10% of the portfolio and shall be considered part of the board's total equity allocation.

Peabody Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONT'D)

FOR THE THREE -YEAR PERIOD ENDING DECEMBER 31, 2005

January 20, 1992

16.02(4) The board may employ a custodian bank and as of January 1, 1992, may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year. 08% of the value of the fund.

April 11, 1996

20.03(1) Equity investments shall not exceed 50% of the portfolio valued at market, including international equities which shall not exceed 5% of the portfolio valued at market. (rescinded December 1999)

20.04(1) United States based corporations and equities of foreign corporations.

20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

May 30, 1996

20.03(2) At least 40% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market.

August 1, 2001

16.08(1) In accordance with PERAC Investment Guideline 99-2 the Peabody Retirement Board is authorized to make two modifications to existing investment mandates. First, the system's larger cap value equity mandate with Freedom Capital Management is being transferred from a separate account to a commingled fund, the Freedom Large Cap Value Fund. Second, the system's fixed income mandate is being transferred from a separate account to a commingled fund. Also, the mandate itself is being modified from a "core" to "core plus" strategy. The new fund is the Freedom Capital Core Plus Fixed Income Fund.

August 8, 2001

16.08(2) In accordance with PERAC Investment Guideline 99-2 the Peabody Retirement Board is authorized to modify its large cap equity mandate with Freedom Capital Management by transferring assets from a separately managed account to a commingled fund, the Freedom Equity Style Fund. Freedom has been the system's large cap equity manager since 1985 and this change involves no revision of benchmark or strategy while accomplishing a reduction in fees.

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE -YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Peabody Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE -YEAR PERIOD ENDING DECEMBER 31, 2005

benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE -YEAR PERIOD ENDING DECEMBER 31, 2005

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Peabody Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

July 15, 1991

In order to become a member of the Peabody Retirement System, a member must be employed in a permanent position with a normal workweek of twenty (20) hours or more.

July 21, 1993

In order to purchase prior service, a person must have been or be a member of the Peabody Retirement System.

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE -YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONT'D)

May 10, 1999

Any purchase of military service time [pursuant to Chapter 71 of the Acts of 1996], that is paid in installments will not exceed a one-year period of time.

January 10, 2003

Pursuant to the authority vested in the Commission under G.L. c. 7, § 50, the Board's supplementary rule regarding Authorization for Travel and Travel Related Expenses is approved.

July 10, 2004

Any purchase of military service time (pursuant to Chapter 468 of the Acts of 2002) may be paid over a five-year period. These payments may be made in one lump sum or by payroll deductions and must be paid in full within the five-year period from the date of returned application and before retirement or employment termination.

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE -YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the Finance Director who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: Patricia Davis Schaffer

Appointed Member: John McGinn Term Expires: 12/31/07

Elected Member: Joseph P. DiFranco Sr. Term Expires: 6/30/08

Elected Member: Donna Hopkins Term Expires: 12/12/08

Appointed Member: Richard Yagjian Term Expires: 7/16/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	
Elected Member:)	\$500,000
Appointed Member:)	Hanover Insurance Company
Staff Employee:)	

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE -YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Mellon HR & Investor Solutions as of January 1, 2004.

The actuarial liability for active members was	\$63,710,588
The actuarial liability for retired and inactive members was	<u>100,632,655</u>
The total actuarial liability was	164,343,243
System assets as of that date were	<u>102,120,540</u>
The unfunded actuarial liability was	<u>\$62,222,703</u>
The ratio of system's assets to total actuarial liability was	62.1%
As of that date the total covered employee payroll was	\$30,307,667

The normal cost for employees on that date was 8.00% of payroll

The normal cost for the employer was 4.70% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.25% per annum
Rate of Salary Increase: 3.00% per annum, increasing to 5.0% in 2012 and after

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$102,120,540	\$164,343,243	\$62,222,703	62.1%	\$30,307,667	205.3%
1/1/2002	\$99,748,173	\$153,861,741	\$54,113,568	64.8%	\$28,963,912	186.8%
1/1/2000	\$93,787,686	\$131,602,457	\$37,814,771	71.3%	\$25,354,706	149.1%
1/1/1998	\$73,920,249	\$121,580,729	\$47,660,480	60.8%	\$23,080,847	206.5%
1/1/1997	\$62,605,948	\$108,379,374	\$45,773,426	57.8%	\$21,025,203	217.7%

Peabody Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE -YEAR PERIOD ENDING DECEMBER 31, 2005

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Superannuation	30	21	32	29	30	11	0	57	15	21
Ordinary Disability	2	0	0	0	0	0	0	1	0	0
Accidental Disability	1	4	1	1	3	0	0	2	3	1
Total Retirements	33	25	33	30	33	11	0	60	18	22
Total Retirees, Beneficiaries and Survivors	764	772	811	777	784	805	792	857	854	846
Total Active Members	703	749	733	776	788	826	814	863	859	887
Pension Payments										
Superannuation	\$4,465,776	\$4,831,397	\$5,046,235	\$5,459,791	\$5,873,181	\$6,256,583	\$6,562,641	\$7,080,484	\$7,804,597	\$8,008,012
Survivor/Beneficiary Payments	459,299	494,666	499,545	516,166	541,326	576,464	643,476	631,882	642,481	680,499
Ordinary Disability	168,374	153,333	141,437	125,122	129,499	122,288	116,976	112,050	100,638	98,530
Accidental Disability	1,216,827	1,191,581	1,168,351	1,167,777	1,255,840	1,302,126	1,267,884	1,313,988	1,368,595	1,427,143
Other	<u>448,143</u>	<u>501,001</u>	<u>512,660</u>	<u>538,379</u>	<u>586,664</u>	<u>584,975</u>	<u>650,112</u>	<u>670,858</u>	<u>714,727</u>	<u>745,094</u>
Total Payments for Year	<u>\$6,758,419</u>	<u>\$7,171,978</u>	<u>\$7,368,228</u>	<u>\$7,807,235</u>	<u>\$8,386,510</u>	<u>\$8,842,436</u>	<u>\$9,241,089</u>	<u>\$9,809,262</u>	<u>\$10,631,038</u>	<u>\$10,959,278</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac